



# The City of San José Deferred Compensation Loan Program

## Who is eligible for a Plan loan?

Any active employee who is a participant in San José 457(b) Deferred Compensation Plan is eligible to apply.

## What is the minimum loan amount?

The minimum loan amount is \$1,000.

## What is the maximum loan amount?

The maximum loan amount is the lesser of:

1. \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans from the Plan to the Participant during the one year period ending on the day before the date on which such loan is made, over the outstanding balance of loans from the Plan to the Participant on the date on which such loan was made, or
2. One-half (1/2) of the present value of the non-forfeitable accrued benefit of the Employee under the Plan.

## How do I apply for a loan?

You can apply for a loan by calling ING at **1.800.584.6001**.

## What is the loan process?

1. Call ING at **1.800.584.6001** to request a loan.
2. The customer service associate reviews your account and generates the paperwork based on your request and the terms of the City's loan program. The paperwork can be mailed, faxed or electronically delivered for online access.
3. You review, complete and sign the loan documents. The documents can be faxed or mailed to ING.
4. Loan proceeds can be directly deposited or a check can be mailed. A confirmation statement including an amortization schedule is mailed to you.
5. Approximately two months following the distribution of the loan proceeds, the first loan repayment will be deducted from your paycheck.
6. Spousal consent is required.

## What can I use my loan proceeds for?

There are two types of loans available; General Purpose and Residential. General purpose loans can be used for any reason and have a maximum repayment period of 5 years. Residential loans must be used for the purchase or renovation of your primary residence and have a maximum repayment period of 20 years. The City's loan program allows for a maximum of one of each type of loan to be outstanding at any one time.

## How does taking out a loan impact my Plan investments?

Your loan is funded directly from your pre-tax contributions in your 457 Plan account. The loan amount will be deducted proportionately from all funds in your account. When you repay your loan, your loan repayment is made with after-tax dollars and is applied to the interest and principal, thereby reducing the balance owed. Repayments received on your loan will be directed to your current investment allocation and will be reflected on your quarterly statement.

A loan may impact your withdrawal value and limit participation in future growth potential. Repaying the loan may or may not restore the growth potential of your account depending on various factors such as: market conditions, the timing of loan repayments and other variables.

## Do I have to put up collateral and qualify for a loan in the same way I would at a bank or credit union?

No, however the remainder of your 457 account will serve as collateral, as required by Federal law. If applying for a residential loan, you will be asked to provide evidence that your loan distribution will be used for the purchase or renovation of your primary residence (e.g., a copy of your real estate sales agreement or renovation contract).

## How are loans treated for tax purposes?

Loans issued from the Plan under terms of the loan program are not treated as distributions, provided they are repaid in accordance with the terms of the loan. Therefore, no taxes are withheld or due when a loan is received.

## May I deduct the interest I pay on the loan from my taxable income if I itemize deductions?

No. Unlike other commercial loans, you pay interest to yourself – that is, all interest payments are invested fully back into your account. Therefore, interest is not tax deductible, as it might be with a commercial loan.

## How is the interest rate determined for Plan loans?

The interest rate for Plan loans will be based on the Moody's Corporate Bond Yield Average - Monthly Average Corporates rate at the time of the loan application. The rate is fixed for the duration of the loan.

## What are the loan initiation and processing fees?

A one-time loan origination fee in the amount of \$25.00 shall be deducted from the loan amount. There will be no processing fee charges to participants.

## What are the loan repayment rules?

You are required to repay your loan in full. Loan repayments are due and payable in accordance with the term chosen. When you sign the loan documents, you are agreeing to the specific terms of the loan as it appears in the documents. While you are actively employed, regular loan repayments must be made through payroll deduction. Your repayments will be deducted from each paycheck, beginning approximately two months from the distribution of your loan proceeds. If you wish to prepay your loan, you may pay off your loan with a personal check. Prior to submitting any prepayment, confirm the total amount due by contacting ING at **1.800.584.6001**.

### What if I take a leave of absence?

If the City approves your taking a leave of absence without pay for a period greater than one month, you may request that the city suspend your loan repayments for up to one year or the duration of your leave (if shorter than one year). Interest will continue to accrue during the suspension period. The original loan duration may not be extended but the remaining balance may be re-amortized if requested. If your leave will last longer than one year, you must resume making loan repayments through personal check payable to the loan administrator (ING) no later than one year after your leave commences.

If you go on a military leave of absence, you may request that the City suspend your loan repayments for the duration of your period of service. Interest will still accrue, however the highest rate of interest that can be applied during the period of leave is currently 6%. Loan repayments must resume upon your return to active employment with the City. You may request that the City extend the loan duration up to the original term plus the period of your military service. For example, if you had a general purpose loan with a five year duration and you went on a two year military leave, the duration of your loan can be extended to seven years.

### What if I fail to make a required loan repayment?

Your loan shall be overdue if any scheduled loan repayment is not received by the loan administrator (ING) by the last day of the calendar quarter in which it was due. In this situation, ING will send you one or more letters warning you that there is a loan repayment(s) overdue, the implication of missing a repayment and how to avoid defaulting on your loan.

To avoid default, the overdue repayment(s) must be paid in full by the end of the calendar quarter following the calendar quarter in which the repayment(s) were due.

### What are the consequences of a loan default?

If ING has not received the overdue loan repayment(s) by the end of the calendar quarter following the calendar quarter in which the repayment(s) were due, your loan will be defaulted and reported to the IRS as a distribution from the Plan. ING will send you a final letter notifying you that your loan has been defaulted. As a result of the loan default, the following will take place:

- The outstanding balance of the loan, including accrued, but unpaid, interest up to the date of default will be reported to the IRS as a taxable distribution (reported on Form 1099-R). That amount will be included in your gross income for the calendar year in which the default occurred. You will receive your 1099-R early in the year following the year in which your loan was defaulted.
- The defaulted loan will continue to be outstanding and interest will continue to accrue until the loan is fully repaid or you experience a distributable event (retirement, separation of service, or death).

The defaulted loan (including unpaid interest accrued after default) is considered outstanding and is taken into account when determining the amount available for future loans from the City of San José Plan. In addition, if you default on a loan, you will not be allowed to initiate another loan of that type until the defaulted loan is repaid in full.

### Where do I go to get a loan repayment estimate?

You can obtain the loan payoff amount by calling ING at **1.800.584.6001**.

### What happens to my loan at separation from service?

Upon separation of service the outstanding balance of any loan shall be due and payable no later than the last day of the month immediately following the month in which you receive your final compensation.

### How can I find out how much my loan payments will be?

ING's online loan modeling program allows you to view various loan amounts and repayment schedules prior to applying for a Plan loan. You can access this online tool through the Account Access option on the City's custom Web site at:

[www.ingretirementplans.com/custom/sanjose](http://www.ingretirementplans.com/custom/sanjose).

### IMPORTANT INFORMATION

Group annuities are long-term investment designed for retirement purposes. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. Account values fluctuate with market conditions, and when surrendered the principal may be worth more or less than its original amount invested. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

*You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options carefully before investing. Fund prospectuses and information booklets containing this and other information can be obtained by contacting your local representative. Please read this information carefully before investing.*

Contact your local representative at:

**ING Financial Advisers, LLC**  
**4 North Second Street, Suite 440**  
**San José, CA 95113**  
**(408) 881-0110**

[www.ingretirementplans.com/custom/sanjose](http://www.ingretirementplans.com/custom/sanjose)

Seminars and securities offered through ING Financial Advisers, LLC (member SIPC), One Orange Way, Windsor, CT 06095-4774, or other broker-dealers with which it has selling agreements. Insurance products issued by ING Life Insurance and Annuity Company. C07-1127-001 (12/07)